

Private And Public Sector Ethics

Clinton H. Richards, (Email: Richards@ccmail.nevada.edu), University of Nevada, Las Vegas
William Corney, University of Nevada, Las Vegas

ABSTRACT

Differences between public and private-sector organizations were proposed to lead to different ethical perceptions, principles and judgments. As expected, employees working in the public and private sector and enrolled in a night MBA program did display significantly different ethical judgments that appeared to be partially, but not completely explained by significant differences in the ethical principles they reported emphasizing. Ethical decision-making models suggest, as we do, that differing ethical perceptions also played a part in the different judgments found.

INTRODUCTION

According to one author (Dean, 1992, p. 285), business ethics "appeared in the media as one of THE issues of the nineties". This attention has not waned with the arrival of the millennium. Reports of scandals involving unethical and often illegal practices have wracked both the public and private sectors and no doubt contributed to the public's loss of confidence in business managers and public administrators (Hartley, 2004; Hartman, 2004).

Meeting the challenge to improve ethics in our private and public institutions requires an understanding of the ethical decision-making process and its moderating factors. Some models with research support suggest that ethics is likely to differ in the private and public sector because of systemic differences in the organizational environments of these sectors. The current study uses previous research, theory, and methodology to develop and test hypotheses regarding the ethical judgments and principles of private and public-sector employees.

THE ETHICAL DECISION-MAKING PROCESS

Models by Hunt and Vitell (1986), Rest (1986), Jones (1991) and Wittmer (2000) propose a process involving ethical perception, judgment, intention, and behavior. Each stage is proposed to be affected by the stages that precede it (Blasi, 1980; Rest, 1986) and the variables that moderate it. Educators and researchers alike have focused most of their attention on ethical perception and judgment stages, as we do in the current study. Hunt and Vitell (1986) describe these stages in considerable detail. According to them, ethical perception includes the perceptions of the issues in the situation and the alternatives, consequences, benefits, probabilities, and importance of stakeholders affected. Provis (2005) explores various categories of obligation and the possibility that close personal friendship leads to "dirty hands" and loyalty in organizations. Chia and Mee (2000) found proximity to the "victim" and the temporal immediacy of effects also appear to significantly impact perceptions of what Jones (1991) calls the "moral intensity" of a situation. Hosmer and Kiewitz (2005) propose that organizational justice has critical implications for ethical judgments of employees as well as for other stakeholders. Ethical judgment of the perceived situation and alternatives is described by Hunt and Vitell as involving deontological (value or rule based) and/or teleological (consequence based) evaluations. Philosophers and others have described moral reasoning based on teleological theories ranging from egoism or self interest to broadly-applied utilitarian or caring principles, as well as numerous deontological principles based on a variety of duties, virtues, and rights (Kohlberg, 1981 and 1984; Steiner and Steiner, 2000). Different judgments may result from the application of different ethical principles or from different ethical perceptions (Jones, 1991; Singer, 1996; Wittmer, 2000).

MODERATING VARIABLES: ORGANIZATIONAL FACTORS

A number of moderating variables are proposed to affect one or more stages of the ethical decision making process, with organizational factors prominent among them. Authors whose ethical decision making models emphasize organizational variables have long cited supporting research (e.g., see Hunt and Vitell, 1986; Ferrell et al., 1989). There is also support for Hunt and Vitell's contention (1986) that industry differences affect ethics (Dornoff and Tankersley, 1975-76; Posner and Schmidt, 1984; Victor and Cullen, 1988). Ethical differences may occur across industries because of variations in professional or industry-wide standards and licensing requirements, or because of systematic differences in organizational factors across the industries (Bommer et al., 1987; Patterson, 2001). An example of the latter are the differences in organizational goals likely to differentiate for-profit and not-for-profit organizations. Bommer et al.'s (1987) concern over the short-term profit goals of many businesses would obviously not apply to organizations in the public sector. In the private sector, however, managers often resolve conflicts in favor of profits over ethics (Vitell and Festervand, 1987). The social goals of not-for-profit organizations, in contrast, may encourage a utilitarian perspective (Townsend, 2000) that leads to higher ethical standards.

Most recent studies continue to support the impact of organizational factors on ethical decision making. Although Patterson (2001) found no relationship between organizational or industry factors and ethical sensitivity, her study is an exception that conflicts directly with several previous studies of organizational effects on ethical sensitivity (Schlachter, 1990; Singhapakdi and Vitell, 1990). Organizational factors positively associated with ethical decision making in recent studies include greater use of codes of ethics and other forms of formalization (Adams et al., 2001; Schminke, 2001; Zimmerman, 2001) and ethical climates emphasizing a utilitarian "caring", a professionalism, or organization-dictated rules (Deshpande, 1996; Barnett and Vaicys, 2000; Vardi, 2001). A tendency for public-sector organizations to rely more heavily on formalization than private sector organizations may extend to stronger rules-oriented ethical climates (Victor and Cullen, 1988; Deshpande, 1996; Zimmerman, 2001) that, like social goals, further increase ethical decision making in the public sector.

PRESENT STUDY

One hundred and twenty-seven employees from the public or private sectors and enrolled in a night MBA program at an urban university were asked to evaluate 15 described business practices on a 5-point Likert-type scale of approval/disapproval and to subsequently indicate the ethical principle (egoistic, Golden Rule, utilitarian, or Kantian) they used most while judging the actions described. Descriptions of the principles and the response format presented to subjects are shown in Table I. The four principles are commonly cited examples of teleological and deontological moral philosophies (e.g., see Hunt and Vitell, 1986; Harris and Sutton, 1995; Ferrell and Fraedrich, 1997).

TABLE I
Description Of Ethical Principles

Now that you have responded to the various business situations, you are asked to reflect on the decision process which you utilized to arrive at your given response. Which one of the following best describes the way in which you evaluated the acceptability/unacceptability of the business scenarios outlined? (Please check one.)

- ☐ A person (or business) should act in a manner which will maximize his/her long-term interests even if it means suffering in the short run.
 - ☐ One should treat others as you would like them to treat you.
 - ☐ A person (or business) should act in such a way that maximizes good for the greatest number of people.
 - ☐ One should act in such a way that his/her behavior reflects a universal law or principle, applicable in all situations.
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Subjects were also asked to provide information on gender, age, and work experience. Eighty-eight were employed in the private sector, with a mean age of 31 and 70 per cent male. The 39 employed in the public sector also had a mean age of 31. Fifty-one per cent were male.

Ethical Judgment Instrument

Ethical judgments were elicited with a scenario-based instrument developed, validated, and used extensively by Harris (1988; 1989; 1990; 1991; Harris and Sutton, 1995; Richards and Harris, 1999; Richards, et.al.2002) to measure judgment in five domains labeled coercion, deceit, fraud, influence dealing, and self interest. While Harris doesn't claim his instrument is all-encompassing, the 15 scenarios describe a variety of situations chosen to reflect the kinds of questionable behaviors frequently encountered in the business world.

Hypotheses And Rationale

Differences in the organizational environments of public and private-sector employees are proposed to lead them to use different ethical principles, perceive ethical situations differently, and make different ethical judgments. Four main hypotheses are forwarded. Hypotheses 1 and 2 propose differences in the use and effects of ethical principles. Both contain associated hypotheses concerning specific ethical principles.

Hypothesis 1: Public and private-sector employees are proposed to emphasize different principles in making their ethical judgments. More private-sector employed subjects are expected to rely on egoism (hypothesis 1A), and fewer are expected to rely on utilitarian or Kantian principles (1B).

Hypothesis 1 is based on proposed differences in the organizational goals and reward systems of profit and non-profit organizations. An emphasis on profit goals and the use of organizational rewards to reinforce them are proposed to encourage egoism in the private sector. Bommer et al. (1987) contend that an emphasis on short-term profits has led to a less ethical organizational climate and to less ethical behavior, and Bowman (1976) found some supporting evidence as private-sector managers reported more pressure to compromise ethical standards for organizational goals than those in the public-sector. Public institutions, on the other hand, are proposed to encourage the use of utilitarian and Kantian principles. The utilitarian principle is consistent with an emphasis on social goals, while a rule-oriented organizational climate in many public-sector organizations is expected to encourage use of the Kantian principle. Public institutions are expected to place more emphasis on rule compliance than private organizations because of difficulty in measuring social goal contribution and accomplishment. Victor and Cullen (1989) sampled from various businesses, academia, and the military and found significant differences in reliance on rules and on efficiency criteria, with the military exhibiting a stronger rule orientation and a weaker efficiency orientation than the businesses. Deshpande (1996) also found evidence of a strong rule-orientation in the public sector, this time in a large charitable organization.

Hypothesis 2: Ethical principles are proposed to affect judgment. Egoism is expected to lead to less critical judgments than other principles (2A), while the Kantian principle is expected to lead to more critical judgments than the utilitarian principle or the Golden Rule (2B).

Research suggests that lower levels of moral reasoning lead to less ethical behavior (Blasi, 1980). Egoism is characteristic of the first or "preconventional" level of moral development. Use of the Kantian, utilitarian, and Golden Rule principles may reflect the second or third level of moral development depending on the reasoning underlying their use. However, Victor and Cullen (1989) and Kohlberg himself (Kohlberg et al., 1983) argue that the Kantian principle is most likely to be indicative of the post conventional stage. We also expect Kantians in the public sector to exhibit higher ethical standards than their nonegoist and non-Kantian counterparts because of their more favorable disposition toward the deontological orientation of organizational rules. Such organizational rules of conduct are expected to be prevalent in the public sector and are proposed to encourage relatively high ethical standards. Kantians are proposed to be more likely to embrace these rule-oriented standards.

Hypothesis 3: Private-sector employees are less critical of questionable business practices than public-sector employees.

This hypothesis follows from hypotheses 1 and 2 and from the proposed rule orientation of public sector organizations suggested by some research (Victor and Cullen, 1989; Deshpande, 1996). Ferrell and Skinner's (1988) research suggests a strong rule orientation increases ethical behavior.

Hypothesis 4: Private-sector employees are less critical of questionable business practices than those emphasizing the same ethical principles in the public sector.

Hypothesis 4 is based on expected differences in ethical perceptions. Jones (1991) suggests that the perceived magnitude of consequences, probability of effect, and proximity to the victim influence the moral intensity of a situation, and Hunt and Vitell (1986) contend that different perceptions of consequences, benefits, probabilities, and stakeholders can lead to different judgments using the same principles. Public sector employees are expected to perceive greater proximity to the victims of questionable business practices than private-sector employees, and less proximity to the perpetrators of these practices. They are also expected to perceive greater negative consequences and fewer positive ones from the business practices than private-sector employees.

DISCUSSION OF RESULTS

Chi-square tests were used to compare the private and public-sector subjects' use of different ethical principles. ANOVA models examined the effects of ethical principles and employment sector on total judgment scores and on judgment within the coercion, deceit, fraud, influence dealing, and self-interest ethical domains. Significance levels of the F values obtained were adjusted to reflect the fact that relevant hypotheses predicted the direction of differences. Although a number of significant main effects were revealed, only one significant interaction effect was found.

Results concerning the use of different ethical principles by private and public sector employees (hypothesis 1) were mixed. Although the percentages of private and public-sector employees who emphasized the Golden Rule and utilitarianism were similar, more than twice the percentage of private-sector employees favored egoism. That difference was significant at the .05 level. Furthermore, public-sector employees were nearly 60 percent more likely than private-sector employees to emphasize the Kantian principle, a difference significant at the .08 level.

Analysis of the effects of ethical principles on judgment supported hypothesis 2. The ethical principle that subjects reported emphasizing was significantly related to their total judgment scores across the five ethical-domain constructs at the .001 level, and significantly related to their scores on each construct at or beyond the .01 level. As expected, the egoism principle was associated with the least critical judgments. Egoists were significantly less critical in all five ethical domains at or beyond the .05 level. Kantians were more critical than other non-egoists across the five ethical domains at the .05 level and significantly more critical in the coercion and fraud domains at the .05 and .01 levels, respectively. However, further analysis revealed that Kantian judgments differed significantly from those of other nonegoists only among public-sector employees. Public-sector Kantians were significantly more critical than other publicly-employed non-egoists across all constructs at the .01 level and on the coercion, fraud, and self-interest constructs at the .02, .001, and .02 levels respectively.

Results also supported hypothesis 3 that public sector employees are more critical of questionable business practices than those in the private sector. An ANOVA model controlling for the effects of age and gender while examining the effect of employment sector on total judgment scores across the 15 scenarios found public sector employees more critical than private sector ones at the .02 level of significance. ANOVA models examining the effects on construct scores found public employees significantly more critical on the coercion, deceit, influence-dealing, and self-interest constructs at or beyond the .10 level. Adjusted means, F scores, and significance levels are shown in Table II. With three scenarios for each ethical domain construct, means could range from a high of 15 (most

disapproving) to a low of 3. Mean scores exceeding 9 therefore indicate some degree of disapproval over the construct's three scenarios. Because of a significant interaction effect between gender and employment sector on the influence-dealing construct, additional ANOVAs for males and females were run on that construct. Employment sector was not significantly related to influence-dealing judgments for males, but was for females at the .02 level.

TABLE II
Effects Of Employment Sector On Construct Scores

<u>Construct</u>	<u>Adjusted Means</u>		<u>F</u>	<u>Sign. Levels</u>
	<u>Public Sector</u>	<u>Private Sector</u>		
Coercion	10.88	10.07	2.13	.074
Deceit	12.78	12.19	1.80	.091
Fraud	12.87	12.34	1.24	.134
Influence Dealing	8.18	7.43	1.66	.100
Self-Interest	7.71	6.54	4.15	.022
Total Across All Scenarios	52.42	48.35	4.62	.017

Hypothesis 4 that public-sector employees are more critical of questionable business practices than private sector employees emphasizing the same ethical principles was generally supported. An ANOVA model that included a variable differentiating use of the four ethical principles revealed that public-sector employees were still significantly more critical than private-sector employees on the self-interest construct at the .01 level and on total judgment scores across all constructs at the .04 level. Employment sector was not significantly related to judgment when the ethical principle variable distinguished only between egoists and nonegoists, but this appears to be due to the strong effect of egoism rather than to the lack of an employment-sector effect on non-egoists. Although public-sector and private-sector egoists did not make significantly different judgments, public-sector non-egoists were significantly more critical than private-sector non-egoists across all ethical domains at the .03 level and on both the coercion and self-interest constructs at the .06 level. Total judgment scores were also significantly related to employment sector when the ANOVA model included a variable which distinguished between Kantians and non-Kantians, whether egoists were included in the sample or not (at the .01 and .05 levels, respectively).

CONCLUSIONS

Results are generally consistent with hypotheses and Hunt and Vitell's (1986) model of ethical decision making which suggests that organizational factors affect ethical judgment by affecting ethical principles and ethical perceptions. Proposed differences in organizational environments were expected to lead private-sector employees to greater use of egotism and less use of the Kantian principle than public sector employees, and this pattern did occur, as did the hypothesized relationship between egotism and less critical judgment. The egotism principle thus appeared to play a role in the private-sector employees' lower standards, but it apparently wasn't the only contributing factor since private-sector employees were still significantly less critical than public-sector employees when statistical tests adjusted for principle effects. This was expected based on proposed differences of ethical perceptions. Private-sector employees were expected to be more tolerant of questionable business practices than their counterparts from the public sector who emphasized the same ethical principles, because the former were expected to perceive greater benefits and lower negative consequences along with less proximity to the victims and more proximity to the perpetrators of the questionable business practices.

Although results of the current study support the proposed effects of environmental factors and ethical perceptions, additional research is needed to strengthen this support and to pinpoint contributing factors.

Measurement of perceptions along dimensions expected to impact judgment is needed to identify the differences and the effects that actually occur. Direct measurement of the organizational characteristics proposed to lead to differences in private and public-sector employees' ethical principles, perceptions, and judgments would also be beneficial. In this regard, Harris and Sutton (1995, p. 815) have called for the development of "validated measures of environmental and experiential variables [proposed to] affect the judgmental process."

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NOTES